

BUDGET GUIDE

Local governments exist to provide a wide range of basic services on which we all depend: police and fire protection, streets and sidewalks, water systems, garbage collection, and parks, just to name a few. The ability of a local government to provide this wide range of services rests on its financial decision-making. This document contains the City of Asheville's 2008-09 Adopted Budget, which is the financial plan that will guide City operations over the next year.

The City of Asheville budget document is designed to emphasize service areas instead of organizational units or funds. Five major service areas are identified in the budget document: (1) Public Safety; (2) Environment & Transportation; (3) Culture & Recreation; (4) Community Development; and (5) General Government.

The budget document is divided into the following sections:

Introduction - This section begins with the City Manager's Budget Message which highlights and explains the major budgetary issues facing the City of Asheville during the 2008-09 fiscal year. The Introduction also includes a description of the budget process and City organizational structure and a presentation of the City's financial policies.

Budget Summary - The Budget Summary section provides a detailed picture of the City's FY 2008-09 proposed annual operating budget, including information on total budget expenditures, revenues, and staffing. This section concludes with an estimate of fund balance for the City's general fund.

Fund Summary - The Fund Summary section segregates the expenditures and revenues by

fund. Detailed information is included for all City operating funds, with a focus on the City's largest fund - the general fund. This section also highlights the City's major revenue sources and summarizes the trends and assumptions that were used in developing the FY 2008-09 revenue estimates.

Service Area Summaries - The next five sections present budget data for the major service areas. Detailed budget information is included for the City departments and divisions associated with each service category. Departmental goals, objectives and performance measures are presented in this section.

Capital Improvement Program/Debt Management - The long-range Capital Improvement Program (CIP) describes planned capital improvement projects and funding sources for the next six fiscal years. This section also contains information on the City's annual debt service requirements.

Supplemental Information - The budget document concludes with a Supplemental Information section that includes a community profile, which provides demographic and economic information for the Asheville area. This section also contains a glossary of frequently used budget terms.

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CITY MANAGER'S BUDGET MESSAGE

May 13, 2008

Honorable Mayor Bellamy and City Council Members,

I am pleased to present to you the proposed City of Asheville annual budget for the fiscal year beginning July 1, 2008 and ending June 30, 2009. Through this document, we address the challenges and opportunities that confront Asheville and provide for the continuation of city services at no less than 2007-08 service levels, while also continuing to implement a number of new strategic initiatives that were launched in the previous fiscal year. An underlying principle of the recommended budget is to balance the constraints of the current economic slowdown with the need to provide quality municipal services at the lowest possible cost to Asheville taxpayers.

To achieve this goal, the recommended budget relies on budget balancing strategies that include maintaining expenditures at current levels wherever possible, reducing spending in non-critical areas, and re-engineering processes to reduce personnel expenditures in the General Fund. As a result, Asheville will be able to maintain a focus on core services, continued implementation of strategic programs, and support a stable and efficient workforce without increasing the property tax rate.

Background and Financial Trends

The FY 2008-09 budget process has proven challenging for the City due to several factors, some of which are directly related to cyclical economic trends and others that are long-term and structural in nature.

Short-Term Cyclical Economic Issues

The recent slowdown in national economic growth has created challenges for local governments in terms of realizing revenue projections while addressing rising commodity prices. Against this backdrop, the City of Asheville began the budget process with a significant shortfall in the General Fund. The City has experienced a reduction in the growth rate for both property and sales taxes, which combined make up 67% of the total General Fund revenue. Growth in property tax revenue has slowed to 2.5%, the slowest growth rate in four years. After growing by an average of 7.8% over the last four years, sales tax collections have only grown by 1.9% through the first seven months of FY 2007-08, with a similar growth rate forecasted for FY 2008-09.

On the expenditure side of the budget, the City is experiencing inflationary pressures in a number of key areas, including health care, fuel, and construction materials. The City was able to contain health care cost increases for a number of years through its wellness and disease management initiatives. However, costs began to increase in FY 2006-07, and these increases have continued into FY 2007-08. As a result, the City's contribution to health care in the FY 2008-09 budget is increased by \$1.5 million.

We successfully addressed the budget crunch brought on by these cyclical economic trends through a collaborative process of identifying cost savings, reducing expenditures and re-engineering processes without reducing services to the public. We employed several specific actions to balance the FY 2008-09 budget including:

- Re-engineering service models in key areas resulting in the elimination of 10 full-time positions in the General Fund;
- Reducing training budgets to defer non-essential training opportunities;
- Eliminating the manager's contingency; and
- Reducing line items for professional services and small capital purchases.

In addition to the operational savings outlined above, we were also able to reduce the pay-as-you-go contribution to capital by financing more of our vehicle replacements (taking advantage of lower interest rates) and by relying on land sale revenue to fund major land purchases. The FY 2008-09 budget also

CITY MANAGER'S BUDGET MESSAGE

includes fee adjustments to account for inflation and to increase cost recovery. Finally, we are attempting to manage our fleet expenses in light of the higher fuel prices by "right-sizing" our fleet and eliminating under-utilized vehicles. A list of some of the other cost savings initiatives and productivity improvements undertaken recently by City departments is included in Attachment A to the Manager's Message.

Long-Term Financial Outlook

Although Asheville is currently experiencing a slowdown in property tax growth, building permit and construction activity, especially in the commercial sector, remain strong. This data shows that Asheville continues to be one of the most desirable places to live and work in our region with continued growth as the center of employment, recreation, healthcare and other services in Western North Carolina. In addition, while projections show a decrease in sales tax growth over the next two years, historical trends point to an improvement in this rate in the next three to five year cycle. Together, this data provides evidence that while we may be experiencing an economic adjustment in the short term, Asheville will continue to benefit from consistent and steady growth in the coming years.

There are, however, additional long-term structural considerations that must be taken into account when planning for future fiscal years. Asheville's limited ability to access revenue sources outside of property taxes, combined with ongoing expenditures related to aging infrastructure, rising employee costs, decreasing federal grant revenues, and costs associated with addressing strategic goals designed to maintain and improve our overall quality of life, will require the City of Asheville to make ongoing and systemic budgetary tradeoffs. Recommended strategies to deal with these long-term issues include indentifying a dedicated funding stream for capital improvements and specific funding options to address Council's goals; pursuing ongoing re-engineering and innovation initiatives; and evaluating core versus strategic services, and setting appropriate priorities. We will continue to discuss these long-term structural issues with Council and further define strategies to address them as we continue to update our long-range financial forecasts. Based on City Council direction, staff also plans to launch an in-depth review of the city's capital planning, including research on options for financing and prioritizing improvements, in summer 2008.

Strategic Initiatives

In March 2008, Asheville City Council adopted four strategic priorities for Fiscal Year 2008-09. Council's strategic plan states that the City of Asheville will be a city that is:

Affordable: The City of Asheville will offer a standard of living that is affordable and attainable for people of all income levels, life stages and abilities.

Green: Asheville will be the southeastern leader in clean energy and environmental sustainability while preserving and enhancing the city's natural beauty.

Safe: Asheville will be one of the safest and most secure communities when compared to similar cities.

Sustainable: Asheville will support a sustainable community and a sustainable city government through a strong commitment to infrastructure maintenance, capital improvements, long-term planning and fiscal responsibility.

Attachment B to the Manager's Message provides detailed information about programs and initiatives funded in this year's budget that directly support the organization's strategic priorities. During the last three years, Asheville City Council has led a strategic planning cycle that includes extensive opportunities for citizen input and feedback. Based on this process and the City Council's leadership, this recommended budget is designed to support our citizen's priorities and continue to enhance the quality of life in our community by funding the continuation or enhancement of strategic programs that were recently launched.

The key elements of the 2008-2009 proposed budget are outlined on the following pages.

CITY MANAGER'S BUDGET MESSAGE

General Fund Highlights

Revenues:

- The property tax revenue is the City's largest revenue source for the General Fund, comprising approximately 49% of the total revenue. Based on estimates from the Buncombe County Tax Assessor, staff has budgeted a 2.5% growth in property taxes for FY 2008-09. This growth rate is lower than the ten-year average growth rate of 3.3%.
- Revenue from charges for services shows a 10.8% increase. Based on recent trends, staff is budgeting \$375,000 more in employee contributions into the health care program. This revenue will be collected in the General Fund and transferred to the Insurance Fund. The budget also includes \$230,000 in additional revenue from proposed changes to the fire inspection fees. The budget also includes a \$360,000 increase in revenue from selling fuel to outside entities. This increase is tied directly to the increase in fuel prices.
- The City has seen its sales tax growth slow in FY 2007-08 as a result of the sluggish economy. Sales taxes growth through the first seven months of FY 2007-08 was only 1.9%, and as a result, sales tax revenue is expected to come in under budget by \$300,000 in FY 2007-08. For FY 2008-09, the North Carolina League of Municipalities has forecasted that statewide sales tax growth will be 1-2%. Staff is projecting that local conditions will be slightly better than the statewide forecast, and has therefore budgeted a 2.8% increase in sales taxes for FY 2008-09.
- Intergovernmental revenue shows an increase of 4.1% in 2008-09; this is primarily due to an increase in revenue from state utility taxes.
- License & permit revenue shows a 15.7% increase primarily due to the inclusion of \$200,000 from the new technology fee which Council approved in April. Revenue from this fee will be transferred to the capital budget to provide funding for technology improvements which will enhance the development review process for our customers.

<u>Revenue Sources:</u>	<u>2007-08 Budget</u>	<u>2008-09 Proposed</u>	<u>Change From Prior Year</u>	
			<u>in \$</u>	<u>in %</u>
Property Tax	42,308,832	43,357,175	1,048,343	2.5%
Intergovernmental	10,406,624	10,829,149	422,525	4.1%
Sales Taxes	17,116,370	17,592,167	475,797	2.8%
Other Taxes	300,000	330,000	30,000	10.0%
Charges For Service	9,394,820	10,413,281	1,018,461	10.8%
Licenses & Permits	4,344,166	5,026,280	682,114	15.7%
Investment Earnings	1,014,000	1,014,000	0	0.0%
Miscellaneous	269,550	303,500	33,950	12.6%
App. Fund Bal.	5,151,930	0	(5,151,930)	-100.0%
Total Revenue	<u>90,306,292</u>	<u>88,865,552</u>	<u>(1,440,740)</u>	<u>-1.6%</u>

Expenditures:

- The FY 2008-09 budget includes general fund expenditures that are 1.6% less the FY 2007-08 budget. However, when you subtract out the \$5.1 million in one-time expenses that were funded with fund balance in FY 2007-08, the general fund budget shows a 4.3% increase.

CITY MANAGER'S BUDGET MESSAGE

- Public Safety is the largest general fund service area, accounting for 41% of all general fund expenditures. Expenditures in this service area show a 9.0% increase in FY 2008-09. As with other service areas in the general fund that are personnel-intensive, most of this increase is due to higher employee health costs. The proposed budget includes six additional firefighter positions which will allow the Fire Department to reduce the amount that is spent on overtime. Public Safety personnel costs are also increasing due to market adjustments and step plan increases. The Police operating budget includes a \$165,000 increase in the City's payment to the County for its share of the Criminal Justice Information System (CJIS), and the Fire operating budget includes \$119,000 to pay the County for 911 emergency dispatch services.
- Environment & Transportation is the second largest service area in the general fund, representing 18% of the FY 2008-09 general fund budget. The budget for this service area shows a 2.2% increase. Personnel costs were held down in this service area through the elimination of five positions in Public Works and one position in the Transportation and Engineering Department. The budget also reflects the decision to begin charging the Parking and Stormwater Funds a portion of the General Fund Engineering Department's personnel costs in order to capture the time that staff devotes to these Enterprise Fund functions. For example, 25% of the Department Director's and administrative staff's costs will now be charged to the Parking Fund to reflect time spent on parking issues. In addition, a greater share of construction inspectors' costs will be charged to Stormwater to better capture the portion of their workload in stormwater.
- The Community Development service area shows a 4.2% decrease due to the removal of significant one-time costs for demolition expenses (\$353,000) and development of the affordable housing plan (\$50,000).
- Expenditures in the General Government service area are remaining flat, due in part to the removal of \$290,000 in one-time funding for the downtown master plan update. However, expenses were also held down through the elimination of four positions in the General Government area.
- The Culture & Recreation budget shows a 6.4% increase. As with Public Safety, most of this increase is due to higher employee health care costs and market adjustments. Operating costs were kept flat.
- Personnel costs, including both salaries and wages and fringe benefits constitute 63% of the FY 2008-09 general fund budget. The personnel budget includes a 3% average merit pay increase for City employees and funding for the third year of the market-based compensation plan and the public safety step plan. The fringe benefit budget also includes a \$1.3 million increase in the general fund's contribution to the employee health care program. Personnel cost increases were held down through the elimination of ten FTE positions in the general fund.
- The budget for operating costs is remaining flat in FY 2008-09. Departments were able to maintain flat operating budgets by removing one-time costs from their budgets and by reducing items such as training & travel and professional services. This was achieved despite significant inflation in a number of key areas, such as fuel and materials cost for asphalt and concrete. For example, fuel costs are currently 54% higher than at this point in the prior fiscal year. One way the City is managing this increase in fleet costs is by "right-sizing" our fleet and eliminating under-utilized vehicles.
- General fund debt service shows a net decrease of \$500,000. The City is paying off approximately \$1.0 million in debt in FY 2007-08. However, the City will issue around \$500,000 in new debt in FY 2008-09 to fund \$1.8 million in vehicle replacement. The City will take advantage of lower interest rates to finance all of the vehicle replacements that are budgeted in the general fund in FY 2008-09.

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- \$2.8 million is budgeted for the direct purchase of capital in FY 2008-09, which represents a significant reduction from the prior year. The FY 2007-08 budget included a \$3.8 million one-time appropriation from fund balance for capital. Factoring out this one-time funding, the ongoing budget for capital shows a \$1.1 million decrease. Part of this decrease is due to the fact that departmental small capital budgets were reduced by 50% in order to help balance the general fund budget.
- Interfund transfers are budgeted to increase by a net amount of \$242,000. The general fund subsidy to the Transit Fund is showing a \$290,000 increase. With transit grant revenue remaining flat and operating costs increasing, a larger general fund subsidy is required to balance the Transit Fund budget. The subsidies to the Civic Center and Festivals funds are decreasing in FY 2008-09. A general fund subsidy of \$75,000 is also required to balance the Golf Fund budget in FY 2008-09.

<u>Expense Category:</u>	<u>2007-08 Budget</u>	<u>2008-09 Proposed</u>	<u>Change From Prior Year</u>	
			<u>in \$</u>	<u>in %</u>
Salaries & Wages	39,913,418	42,242,338	2,328,920	5.8%
Fringe Benefits	12,190,624	13,734,183	1,543,559	12.7%
Operating Costs	21,754,318	21,624,484	(129,834)	-0.6%
Interfund Transfers	2,560,685	2,802,562	241,877	9.4%
Debt Service	6,206,480	5,709,822	(496,658)	-8.0%
Capital Outlay	7,680,767	2,752,163	(4,928,604)	-64.2%
Total Expenditures	<u>90,306,292</u>	<u>88,865,552</u>	<u>(1,440,740)</u>	<u>-1.6%</u>

Fund Balance Analysis

In the City's general fund, at the end of FY 2005-06, fund balance exceeded 30%, which was well above the 15% minimum level prescribed by City policy. The strategic decision was made to begin appropriating some of this fund balance to address the City's major capital needs and to pay for other one-time initiatives. As mentioned earlier in the Manager's Message, the FY 2007-08 budget included a \$5.1 million fund balance appropriation that is currently being used to fund a number of one-time initiatives and capital projects. Based on current year-end revenue and expenditure estimates for the general fund for FY 2007-08, staff is projecting that available fund balance will equal to 19.1% of estimated year-end expenditures. As mentioned above, the City policy is to maintain an available fund balance equal to at least 15% of general fund expenditures. With the current slowdown in the economy and no clear indication when growth may return to normal levels, coupled with the fact that Asheville faces some long-term structural budget issues, such as the inability to charge differential water rates, declining grant revenue, and an aging infrastructure, staff is recommending that no fund balance be appropriated with adoption of the FY 2008-09 budget.

Other Funds

Water Resources Fund

- The FY 2008-09 budget includes a 4% increase in water rates which will generate approximately \$800,000 in revenue.
- The Capital Outlay category includes funding for mandatory capital improvement projects, rolling stock, and small capital equipment. The budget includes a \$3.5 million fund balance appropriation to fund the Brevard Road NCDOT project.

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- The debt service for FY 2008-09 is 21% of the total budget. The increase in debt service is due to the recent issuance of \$40 million in revenue bonds for capital improvements.

Parking Services Fund

- Debt service on the existing decks is being paid off in FY 2007-08. The FY 2008-09 budget includes \$500,000 to pay what is expected to be a half-year's debt service payment on a new \$18.5 million Biltmore Avenue parking deck, which is budgeted in the Parking Fund's Capital Improvement Program (CIP). The deck will be financed with a combination of tax exempt and taxable bonds.
- The Parking Fund's CIP also includes \$532,000 to fund major repair and restoration work on the Wall Street garage, which is now twenty years old. This project will be funded with a transfer from the Parking operating fund. The Parking operating fund will also provide \$50,000 to fund wayfinding signs and \$34,000 for security cameras in the garages.
- The 2008-09 budget continues the \$248,116 transfer to the Transit Services Fund.

Transit Services Fund

- Increases in State grant funding are offset by a \$160,000 decrease in funding from the federal government. As a result the federal/state grant revenue category shows almost no increase over FY 2007-08.
- Operating costs show a \$340,000 increase due to higher contract costs for labor and increasing fuel prices.
- As a result of the higher operating costs and the lack of growth in grant funding, the subsidy required from the General Fund shows an increase of \$290,000. Also, in order to balance the Transit Fund budget, \$100,000 that had been previously set aside for capital improvements to the transit system will be transferred back to support operations. The proposed budget also continues the \$248,116 transfer from the Parking Services Fund.

Stormwater Fund

- The revenue budget for utility charges is adjusted to reflect actual collections from FY 2006-07.
- Six positions that were added mid-year in 2007-08 are fully funded in the FY 2008-09 budget. These positions include three construction inspectors, two plan reviewers and an administrative support position. The addition of these positions has allowed the utility to enhance its development review, inspection and enforcement services.

Civic Center Fund

- The budget for operating revenue is adjusted upward by 11.6% to reflect revenue trends observed over the last two fiscal years.
- Operating costs were kept flat to help balance the budget.
- With operating revenues adjusted upward and operating costs kept flat, the General Fund subsidy was reduced by \$33,200.

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Festivals Fund

- A general fund subsidy of \$162,675 is included to support the costs of the Festivals staff. This subsidy is reduced from FY 2007-08 because more cultural arts staff are being directly accounted for in the General Fund.

Golf

- The proposed budget includes additional revenue from increases to the passholder fees and greens fees that Council approved in April.
- The proposed expenditure budget includes cost increase for personnel and utilities.
- Even with the Council-approved fee increases, a \$75,701 General Fund subsidy is required to balance the FY 2008-09 budget.

Conclusion

Each year, the City of Asheville's Finance Department coordinates the city's budget process, and I want to thank the staff in this department and recognize, with sincere appreciation, the assistance and cooperation of our department directors and employees for their many hours of hard work and contributions to this budget. I want to specifically recognize the efforts of Chief Finance Officer Ben Durant and the staff in the Budget and Research Division including Tony McDowell, Sandy Bumgarner and Alina Law.

In closing, this recommended budget supports City Council's strategic priorities for Asheville while maintaining core services and supporting our workforce without increasing the property tax rate. I am proud that the City of Asheville continues to carry forward the community's vision for preserving and enhancing our quality of life while strategically planning for how we will continue to manage economic changes, community growth and evolving needs. I look forward to another successful year where Asheville continues to be recognized as one of the best places to live, work and recreate in the country. I also look forward to the upcoming budget discussions with you and the citizens of Asheville as we move forward with this FY 2008-09 financial plan.

Sincerely,

Gary W. Jackson
City Manager

CITY MANAGER'S BUDGET MESSAGE

ATTACHMENT A

Cost Savings Initiatives & Productivity Improvements

As noted in the City Manager's Budget Message, operating costs were held in check using various budget balancing strategies. This ability to hold the line on costs for existing programs and services is due in large part to cost savings initiatives and productivity improvements that departments have implemented over the last few years. The bulleted list below provides a sampling of some of these initiatives.

- The Human Resources Department coordinated each promotional/out-of-class drug screen to eliminate duplicate testing and further improved the new employee process by providing OSHA health screenings during new employee orientation for applicable positions making us 100% compliant and saving over 500 man-hours per year. These changes have produced an estimated cost savings of \$11,000
- New light fixtures will be installed in the Civic Center lobby in FY 2008-09 producing \$2,000/year in savings. Also, the Civic Center chiller purchase in early FY 2008-09 will save \$85,000/ year. The arena roofing project also has the potential to greatly decrease utility and maintenance costs. Anticipate entering into Phase II of the process in early FY 2008-2009.
- By transitioning from 800 mhz radio modems to the use of cellular data card, the City realized an estimated savings of \$125,000 over a 4 year period. This transition has also increased the speed of access dramatically, where mug shots that took a few minutes to download using the 9600 baud radio modems now only take a few seconds.
- Information Technology Services (ITS) re-engineered long distance to utilize more modern (VOIP) technology, saving approximately \$40,000 over a 4 year period. ITS also re-engineered the way we handle fraudulent and unsolicited email (Spam), to both provide better service and quicker updates. Savings of approximately \$24,000 will be realized over a 4 year period.
- The Public Works Department is using alternative disposal/composting sites during loose leaf season to reduce tipping fee costs. Loose leaves are delivered directly to residents per request, avoiding tipping fees of \$8,000.
- The City's Fleet Division has added a total of 10 compressed natural gas (CNG) vehicles since inception (18 months) resulting in fuel savings estimated at \$14,310.
- The Water Department has saved an estimated \$200,000 by using the Asset Management Program and Best Business Case Evaluations on all projects to determine best value, customer impact, long term sustainability, fire protection upgrades, improved pressure and flow, and to determine life cycle cost.
- The Water Department saved money by utilizing in-house staff to provide construction project management for the revenue bond projects as opposed to contracting with a third party for project management. The Water Department also expanded the AMR (automated meter reading) devices program, which will enable the department to use current employees in other growth areas.
- The Planning Department continues to conduct numerous studies utilizing existing staff instead of consultants. 2007 studies included: the Shiloh Neighborhood Plan, the Merrimon Avenue Zoning Study, and the Haywood Rd. Zoning Study. Savings are estimated at over \$100,000.

CITY MANAGER'S BUDGET MESSAGE

- The Planning Department also secured equipment and developed a process for electronic submittal and review (still testing). This new system will save time and money for both the City and the development community. The Department has also implemented a new code enforcement notification and tracking system, which has significantly improved productivity.
- The Fire & Rescue Department implemented services from stations 10 and 11, resulting in improved service delivery levels and in the process, consolidated engine 5 and ladder 5 to most efficiently re-deploy our resources. Service delivery has also been improved by completely revamping automatic aid agreements with all of our neighboring fire departments. Use of these departments' resources dramatically reduces the city's cost in equipment and personnel. Finally, the Fire Department continues to partner with AB Tech for training, which results in over \$100,000.00 annual savings.
- The Fire & Rescue Department has also stationed fire marshals in the physical areas that they serve to reduce fuel and labor costs and are currently implementing fuel cards to reduce fuel costs when re-fuelling fire apparatus. Firefighters have also taken over the janitorial duties in an additional portion of the Municipal Building to reduce costs and eliminate a cleaning contract. Also, smaller response vehicles and hybrid vehicles are being used where possible.
- The Transportation & Engineering Department restructured the Transit and Parking services divisions to create a Transportation Management Services Division to coordinate all transportation planning functions. These functions include public transportations, bike planning, transportation demand management, planning for sidewalks, coordination with taxi cab providers and trolley services.
- Using a \$2.1 million grant from the state, the Transit Division will replace five buses, which will improve efficiency and reduce maintenance costs.

CITY MANAGER'S BUDGET MESSAGE

ATTACHMENT B

Strategic Initiatives

Affordable: The City of Asheville will offer a standard of living that is affordable and attainable for people of all income levels, life stages and abilities.

- The City of Asheville remained committed to holding the line on property taxes in FY 2008-09 to support our citizen's ability to affordably live and work in the community. No property tax increase is recommended in this budget.
- This year, the city's Affordable Housing Task Force will complete its work on a comprehensive housing affordability plan for Asheville. A recommended plan will be coming forward for Council consideration in early FY 2008-09.
- The FY 2008-09 budget recommends adding \$600,000 in annual General Fund support for the Housing Trust Fund, a dedicated low-interest loan pool set aside for the development of affordable housing.
- FY 2008-09 will mark the first full year that the Asheville-Buncombe Homeless Initiative will operate as an in-house city program. As part of the city's commitment to actively implement the 10-year Plan to End Homelessness in Asheville and Buncombe County, more than \$655,000 in CDBG and HOME funds will support 13 new or continuing programs that will significantly help the homeless or prevent homelessness.
- The City of Asheville remains committed to working with the Housing Authority of the City of Asheville to pursue the redevelopment of public housing through the federal HOPE VI program or a similar initiative in FY 2008-09.
- The West Riverside Operation Weed & Seed Initiative continues to move toward the overall goal of improving quality of life for residents of the West Riverside area. The program will continue its partnership with resource providers who serve more than 200 residents with tutoring/homework assistance, financial planning, small business development and youth programming.

Green: Asheville will be the southeastern leader in clean energy and environmental sustainability while preserving and enhancing the city's natural beauty.

- Fiscal Year 2008-09 will be the first full year that includes a position dedicated to energy coordination. In 2008-09, this position will be responsible for developing a comprehensive energy management plan for the organization.
- The proposed FY 2008-09 budget includes \$25,000 to fund new initiatives in the sustainability/energy program.
- FY 2008-09 will continue the City's commitment to an alternative fuels program for its fleet, maintaining a switch to ethanol and biodiesel in order to reduce vehicle emissions and petroleum consumption.
- The FY 2007-08 General Fund CIP included \$3.2 million in funding for vehicle replacement, which will also have a substantial positive impact on the City's emissions production and petroleum consumption.
- Five hybrid buses will be in operation during FY 2008-09 due to a \$100,000 appropriation made during the middle of the last fiscal year.
- The City's downtown sanitation crew, which provides for expanded seven-day a week garbage collection, as well as the city's graffiti removal pilot program will continue into FY 2008-09.

Safe: Asheville will be one of the safest and most secure communities when compared to similar cities.

- The FY 2007-08 budget included funding to add two additional beats in the City. In FY 2008-09, the Asheville Police Department will graduate between 25-35 new police officer cadets. The FY 2008-09 budget also includes full-year funding for two gang investigators.

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- In FY 2007-08, the City, at a cost of \$70,000, entered into an Emergency Services Contract with the Reems Creek Fire Department to improve emergency response times in the Beaverdam area. Funding for this contract is continued in FY 2008-09.
- The City of Asheville implemented an improved Citizens' Emergency Notification System. The Code Red System allows citizens to register for emergency notification via cellular phone in addition to traditional home telephone notifications.
- The City of Asheville will continue its commitment to improve security systems at city facilities with \$200,000 budgeted for related capital improvements.
- The FY 2008-09 budget includes additional funding in the amount of \$284,000 to continue the City's contractual obligations with Buncombe County for the Criminal Justice Information System (CJIS) and emergency 911 dispatch.

Sustainable: Asheville will support a sustainable community and a sustainable city government through a strong commitment to infrastructure maintenance, capital improvements, long-term planning and fiscal responsibility.

- The FY 2007-08 budget included \$615,000 in funding for property acquisition and project implementation for the Hominy Creek and French Broad River greenway projects. Work is continuing on those two projects. The FY 2008-09 budget continues the City's commitment to greenway development by providing \$345,500 for construction of Phase II of the Reed Creek Greenway. To aid in planning for future greenway projects, the Parks & Recreation FY 2007-08 budget also included \$120,000 to update the City's Parks & Greenways Master Plan. The Master Plan is currently nearing completion, and staff will be bringing the plan to Council for approval in early 2008-09.
- The FY 2007-08 Parks & Recreation CIP also provided \$500,000 in funding for roof replacement at the Montford, East Asheville and Oakley recreation centers, maintenance on the City's swimming pools, and replacement of the irrigation system at the Municipal Golf Course. Work on all three of these projects is underway and will continue into FY 2008-09.
- To help guide future development in the downtown area, the FY 2007-08 budget included \$170,000 to update the Downtown Master Plan. The team managing Phase I of this project held a kick-off meeting last week on May 8, 2008. A series of public meetings is scheduled on this project in the next several months, with the final plan expected to be brought to City Council in October 2008.
- In 2007, City Council approved a \$40 million revenue bond for water line repair and replacement projects as part of Asheville's commitment to upgrading aging infrastructure and ensuring reliable water service. By financing repairs through a revenue bond, the city is able to complete repairs at a much faster rate. In March 2008, the City kicked off a series of major water line replacement projects. A total of 11 projects will be completed in 2008-2009.
- The FY 2007-08 CIP included \$1.3 million to replace the City's enterprise software system (H.T.E.). After many months of preparation by and collaboration between City staff, the Business Technology Improvement Program team issued an enterprise software replacement RFP. To date, sixteen vendors have submitted an Intent to Propose. The bid opening occurred on May 7, 2008. Staff anticipates that vendor selection will take place in the first quarter of FY 2008-09 and implementation will begin some time in early calendar year 2009.
- The FY 2008-09 budget continues the City's commitment to repair aging infrastructure by continuing to provide \$400,000 for capital improvements at the Civic Center and \$952,300 for street and sidewalk maintenance.
- The City of Asheville continues its partnership with the Tourism Development Authority in FY 2008-09 to implement a community-wide wayfinding program. The Parking operating fund includes a \$50,000 allocation to fund wayfinding and improved directional signage in city parking decks.

ORGANIZATIONAL STRUCTURE

Fund Accounting

The accounts of the City of Asheville are organized and operated on the basis of funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Funds included in the City of Asheville adopted budget can be grouped into two types: governmental funds and proprietary funds. Governmental funds are those through which most functions of the City are financed. Proprietary funds are used to account for City activities that are similar to those often found in the private sector. Specific City of Asheville funds include:

General Fund

The General Fund is a governmental fund that encompasses most of the City's day-to-day operations, such as police, fire, refuse collection, street maintenance, and parks and recreation. General Fund operations are primarily funded through property tax dollars, but are also supported through sales tax revenue, charges for service, license & permit fees, and investment earnings.

Enterprise Funds

Enterprise Funds are proprietary funds used to account for activities that operate like private businesses, where expenses are primarily financed by revenues derived from user charges. For the City of Asheville, these funds are:

- Transit Services Fund
- Parking Services Fund
- Water Resources Fund
- Civic Center Fund
- Festivals Fund
- Stormwater Utility Fund
- Golf Fund

Capital Funds

Capital Funds are used to account for capital replacements and improvements. Funding is provided from operations, federal or state grants, or long-term financing and may be annual appropriations or project appropriations. Appropriations are approved through the Capital Improvement Plan process. Capital Funds include:

- General Capital Projects Fund
- Street and Sidewalk Improvement Fund
- Community Development Fund
- Water Major Capital Improvement Fund
- HOME Fund
- Civic Center Capital Fund
- Parking Services Capital Fund
- Transit Services Capital Fund

How Funds Interact

City funds interact in a variety of ways. Expenses that occur in one fund are frequently incurred to benefit another fund. When this occurs, the benefiting fund may reimburse the fund providing the goods and services. Examples of such transactions include general government services provided by the General Fund to the Water Resources Fund. Interfund transfers may also result from the exchange of resources between funds to cover operating and capital expenses. For example, the FY 2008-09 budget includes a transfer from the General Fund to the Civic Center Fund to support operations. Transfers between funds result in the budgeting of dollars in both participating funds.

Departments & Divisions

Departments are organizational units that provide a major type of public service, such as fire or police protection. Departments are usually subdivided into one or more divisions. For instance, the police department consists of four divisions: administration, criminal investigations, support bureau, and patrol bureau. Often within each division there are smaller units responsible for performing specific activities. For example, within the police patrol division is the K-9 patrol team and the anti-crime team.

A City organizational chart is presented on the following page.

See Separate Organizational Chart in Excel

BUDGET PROCESS

Budget Preparation Overview

Budget preparation affords departments the opportunity to reassess their goals and objectives and the strategies for accomplishing them. Even though the budget may be heard by City Council in May and adopted in June, its preparation begins at least six months prior with projections of City reserves, revenues, and financial capacity. It is against this backdrop that departmental expenditure requests are formulated and reviewed. The FY 2008-09 Budget Calendar is displayed on pages 17-18.

Financial Forecasting

The annual budget process begins with the Budget Office preparing revenue and expenditure projections. These projections serve as the framework for financial decision-making during the City's annual strategic planning and budgeting process. The Budget Office updates the City's general fund forecast annually to adjust for changes in local, state, and national economic conditions and trends; changes in City Council priorities and policies; and other variables that might affect the City's ability to provide needed services and maintain its financial health in future years.

City Council Strategic Planning

Linking important objectives with necessary resources requires a process that identifies key goals at the very beginning of budget preparation. The annual strategic planning process begins with the City Council Retreat in late January, at which time Council identifies its goals and priorities for the upcoming fiscal year. The Council's directives set the tone for the development of the annual budget.

Departmental Budget Development

Departments begin developing their budget requests in January. During this phase, departments are encouraged to thoroughly review all programs and services assessing their "value" and priority to the citizens of Asheville. Examination of current departmental programs or positions for possible trade-offs, reduction, or elimination is strongly suggested.

Any new programs or services that departments would like funded are submitted to the Budget Office as expansion requests. Expansion requests identify the program's purpose, costs, objectives, and proposed funding sources. The expansion request also describes how the new or enhanced program is linked with overall Council priorities. Departments are encouraged to prioritize their expansion requests and only submit a limited number of requests each year.

In addition to the budget worksheets and expansion request forms, departments are required to submit the following information to the Budget & Research Office:

- *Low Priority Services.* Each department is required to submit a list of existing programs and services that could be eliminated, reduced or scaled back. These services can be used as possible "program trade-offs," allowing departments to shift resources from low priority services to new or enhanced services in order to maximize budget target allowances.
- *New or Increased Fees.* Proposals for new or increased user fees are also submitted with the departmental budget request packages. Some or all additional revenue generated from new or enhanced fees may also be used as a way to maximize departmental target allowances.
- *Performance Objectives & Measures.* Performance measures are used to report on the achievements, impacts and outcomes of key City programs. Departments submit an update of their performance objectives and measures during the budget process. Departments report on prior year performance, update current year estimates, and set targets for the upcoming fiscal year. Departments are also encouraged to continually evaluate and refine their performance indicators to ensure that they accurately reflect the organization's mission and priorities.

BUDGET PROCESS

City Manager Review

Once the Budget Office has completed its technical review of the budget, department directors meet with the City Manager in team sessions to discuss the operating and capital budget requests. Expansion requests are evaluated based on the City's financial capacity and on how they relate to City Council priorities. In most years, monies exist to fund only a small number of expansion requests. Following these senior management sessions, a citywide proposed operating budget is developed.

Budget Adoption

The City of Asheville adopts its annual operating budget in accordance with North Carolina General Statutes (N.C.G.S. 159 - Local Government Budget and Fiscal Control Act). These statutes require that City Council adopt a balanced budget in which estimated revenues and appropriated fund balances equal expenditures. The City Manager must submit a balanced budget proposal to the City Council by June 1 of each year, and City Council must adopt the Budget Ordinance by July 1. A formal public hearing is required to obtain taxpayer comment before City Council adopts the budget. By state law, the fiscal year begins on July 1 and ends on June 30.

Budget Amendments & Revisions

After the Budget Ordinance is enacted, state law permits City Council to amend it at any time during the fiscal year. Each amendment must continue to adhere to the balanced budget statutory requirements. Amendments may in no way change the property tax levy or alter a taxpayer's liability.

Budget revisions are transfers within a departmental budget not affecting the total departmental appropriation or fund total. Budget revisions do not require City Council approval.

Basis of Budgeting

As required by the North Carolina Local Government Budget & Fiscal Control Act, the budget is prepared and adopted using the modified accrual basis of accounting. Briefly, this means that obligations of the City are budgeted as expenditures, but revenues are recognized only when they are measurable and available. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Those revenues susceptible to accrual include: investment earnings, sales tax, and grants-in-aid earned.

During the year, the City's accounting system is maintained on the same basis as the adopted budget. This enables departmental budgets to be easily monitored via monthly accounting system reports. At year-end, the City's Comprehensive Annual Financial Report (CAFR) is prepared on a basis consistent with "generally accepted accounting principles" (GAAP). This basis of accounting conforms to the way the City prepares its budget, with a couple of notable exceptions. One, certain items that are referred to as revenues and expenditures in the budget are included as other financing sources and uses in the CAFR. In addition, for financial statement presentation, proprietary funds are adjusted to the full accrual basis. The most significant differences between budget and CAFR for proprietary funds are: a) capital outlay & debt service principal payments are recorded as expenditures for budgetary purposes as opposed to adjustments of balance sheet accounts in the CAFR (GAAP); and b) depreciation is recorded as an expense in the CAFR (GAAP) and not recognized for budgetary purposes.

All outstanding encumbrances on the accounting system on June 30 are carried over into the next year's budget. Outstanding encumbrances at year end do not constitute expenditures or liabilities.

FY 2008-09 BUDGET SCHEDULE

<u>Event</u>	<u>Date</u>	<u>Topics</u>
Begin User Fee Process	<i>Wednesday Oct. 31, 2007</i>	Request Forms Distributed
Begin CIP Process	<i>Thursday Nov. 15, 2007</i>	Request Forms Distributed
User Fee Requests Due to Budget	<i>Wednesday Nov. 28, 2007</i>	User Fee Requests returned to Budget
CIP Requests Due to Budget	<i>Thursday Dec. 20, 2007</i>	CIP Requests sent to Budget
Operating Budget Process Begins	<i>Thursday Jan. 3, 2008</i>	Budget Instructions, H.T.E. Worksheets, Position Budget & Performance Measurement Worksheets Distributed
Outside Agency Applications Sent	<i>Monday Jan. 7, 2008</i>	Outside Agency applications sent
City Council Annual Retreat	February 4-5, 2008	Budget Status/Projections Goal Setting & Other Issues
Complete Departmental Budget Requests	<i>Monday Feb. 4, 2008</i>	Line Item and Position Budgets Entered Performance Measures & Narrative Submitted
Budget Office Technical Reviews with Departments	<i>Feb. 5 through Mar. 4, 2008</i>	Departments review budgets with budget office
City Manager & Management Team Review	<i>Mar. 5 through Mar. 31, 2008</i>	Departments present budgets to City Manager
Revenue & Finance Committee/Fees & Charges	Tuesday Mar. 13, 2008 & Tuesday Apr. 1, 2008	Staff Presents Recommendations
Revenue & Finance Committee/Outside Agency Contracts	Wednesday Apr. 30, 2008	Staff Presents Requests & Recommendations
Budget Finalization	<i>April 1 through April 25, 2008</i>	Final adjustments to budget
City Council Budget Preview	Tuesday Apr. 15, 2008	Preview of City Manager's Proposed Budget
Budget Presentation/Set Public Hearing	Tuesday May 13, 2008	Summary of overall budget & key organizational issues
Budget Worksession	Tuesday May 20, 2008	Budget deliberations and decisions
Budget Worksession	Tuesday May 27, 2008	Budget deliberations and decisions
Public Hearing	Tuesday June 10, 2008	Citizen review of proposed budget
Budget Worksession	Tuesday June 17, 2008	Final Budget Decisions
Budget Adoption	Tuesday June 24, 2008	Adopt FY 2008-09 Budget

FINANCIAL POLICIES

A. Revenue Policy

1. As provided by the North Carolina Local Budget and Fiscal Control Act, estimated revenue from the Ad Valorem Tax levy will be budgeted as follows:
 - a) Assessed valuation shall be estimated based on historical trends and growth patterns in a conservative manner.
 - b) The estimated rate of collection of the levy shall not exceed the rate of the preceding fiscal year.
 - c) The tax rate shall be set each year based on the cost of providing general government services. Rates shall be adjusted periodically, but shall not result in revenues exceeding a 5% annual growth in Ad Valorem Tax revenues excluding growth in valuation or an increased collection rate.
2. The City sets fees that will maximize user charges in lieu of Ad Valorem Taxes for services that can be individually identified and where the costs are directly related to the level of service:
 - a) To the extent possible, user charges for water, sewer and downtown parking will be sufficient to finance all operating, capital and debt service costs for said services.
 - b) The Civic Center will operate in a manner such that 90% of budgeted operating costs will be financed through user charges. A profit and loss statement will be prepared for each event for evaluation of cost recovery.
 - c) Recreational programs will be funded from user charges for all programs for which it is practical to charge. User charges should represent at least 10% of the total recreational budget.
 - d) Building and code enforcement activities will be funded through user charges in the form of building permits, inspections, and plan review fees. These fees should represent 100% of operating costs.

- e) To the extent practical, any general city service, which is of a higher level or benefits specific recipients, shall be supported by user fees designed to recover costs from such recipients.
 - f) Where user fees are based on cost recovery, said costs shall be reviewed annually and fees adjusted as practicable.

3. The City will project revenues for five years and will update the projections annually.

B. Operating Budget Policy

1. Current operating revenues will be sufficient to support current operating expenditures. Fund balance appropriated shall not exceed an amount that management can reasonably expect to save during the year.
2. Debt or bond financing will not be used to finance current expenditures.
3. The City will begin to develop a program to integrate performance measures and productivity indicators with the annual budget.
4. The City will prepare a five-year operating budget projection which will include projections of annual growth plus allowances for operating costs of new capital facilities.
5. The City will establish a risk management program to provide for protection against loss and a reduction in exposure to liability. The City will investigate the establishment of a self-insurance program to provide for protection against major loss in excess of an appropriate amount with excess coverage being purchased to cover catastrophic loss. The establishment of a comprehensive safety program will also be investigated to minimize the City's exposure to liability and thereby reduce the number of claims filed.
6. The City will maintain a capital reserve fund to replace all vehicles and other capital outlay items with a life of more than one year and a value of \$7,500 or more. Revenue equivalent to 7.0 cents on the tax rate and 60% of one-half cent sales tax will be appropriated annually to this fund.

FINANCIAL POLICIES

7. The City will maintain a street & sidewalk reserve fund to provide for upgrading the City's street, sidewalk, and storm drainage systems. Revenues equivalent to 4.1 cents on the tax rate and Powell Bill revenues will be appropriated annually to this reserve.
8. It is the City's policy not to fund requests from outside organizations which provide social services or services which are County-wide in scope.
9. It is the City's policy that all general fund balance exceeding 15% of expenditures shall be earmarked for capital reserve purposes.
10. It is the City's policy that the operating budget be prepared in accordance with Generally Accepted Accounting Principles.
3. Full disclosure will be provided in the financial statements and bond representations.
4. Financial systems will be maintained to monitor expenditures and revenues on a monthly basis.
5. All revenue collections will be consolidated under the Director of Finance and be audited at least annually.
6. The City's annual financial report will be prepared according to the standards necessary to obtain the Certificate of Achievement of Excellence in Financial Reporting from GFOA and submitted each year for the recognition.

C. Capital Improvement Policy

1. The City will update and readopt annually a six-year capital improvement program which details each capital project, the estimated cost, description and funding source.
2. The capital improvements plan should be tied to the City's comprehensive growth plan, "City Plan 2025," to ensure that the capital items requested meet the future growth needs for the City.
3. Operating expenditures will be used to maintain the Capital Improvements Program and provide all salaries, operating costs, and small capital outlay required.

D. Accounting Policy

1. The City will establish and maintain the accounting systems according to the North Carolina Local Budget and Fiscal Control Act.
2. An annual audit will be performed by an independent public accounting firm which will issue an official opinion on the annual financial statements, with a management letter detailing areas that need improvement if required.

7. The City's Fiscal Procedures Manual will be maintained as a central reference point and handbook for all activities which have a fiscal impact within the City and will serve as the City's authoritative source for fiscal procedures.

E. Debt Policy

1. Capital projects financed through the issuance of bonds shall be financed for a period not to exceed the expected useful life of the project.
2. The general obligation debt of the City of Asheville will not exceed 8% of the assessed valuation of the taxable property of the City.
3. Total debt service on tax-supported debt of the City will not exceed 15% of total general government operating revenue.
4. Interest, operating, and/or maintenance expenses will be capitalized only for facilities of enterprise activities and will be strictly limited to those expenses incurred prior to actual operation of the facilities.
5. The City will maintain its financial condition so as to maintain a minimum AA bond rating.
6. The City's debt policy will be comprehensive and the City will not knowingly enter into any contracts creating significant unfunded liabilities.

FINANCIAL POLICIES

F. Reserve Policy

1. The City will maintain an unallocated fund balance to be used for unanticipated emergencies of 15% of the general operating budget (excluding capital outlay). These funds will be used to avoid cash-flow interruptions, generate interest income, eliminate need for short-term borrowing, and assist in maintaining an investment-grade bond rating.
2. The City will establish a contingency reserve to provide for unanticipated expenditures of a nonrecurring nature or to meet unexpected increases in service delivery costs. This reserve will be budgeted at 1.5% of the general fund revenues estimated for that fiscal year.
3. The City will maintain a two-to-one ratio of total current assets over total current liabilities in all enterprise funds.